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RAILWAY DISCRIMINATIONS AND INDUSTRIAL COMBINATIONS.

In testifying before the Industrial Commission upon the subject of transportation, I made some observations upon the effect of rate discriminations in the building up and perpetuating of trusts and monopolies. It has been intimated that if what was there said could be put into some coherent form, it might not be without interest as a trifling contribution to a most interesting social problem.

Few people have any adequate conception of the importance, in a commercial way, of slight changes in the freight rate. Not long ago the railroads centering at Chicago imposed a terminal charge of two dollars per car upon every carload of livestock delivered at the stock yards in that city. The matter having been brought before the Interstate Commerce Commission, this charge was declared to be unlawful and the carriers were ordered to desist from imposing it. They declined to obey and proceedings were begun in the courts for the purpose of enforcing this order. The judge before whom the case came, while sustaining at a preliminary stage of the proceedings the action of the Commission, suggested a doubt whether the relief sought was after all of much consequence.

This terminal charge, applied to all the carloads of livestock entering Chicago during a single year, aggregates about \$500,000, and this amount is collected year after year. The courts of that metropolis are continually called upon to decide cases involving large sums of money, but seldom have they, or will they, pass upon one of greater pecuniary importance than is the question whether the imposition of this trifling switching charge of two dollars per carload is lawful.

Recently the Commission decided that grain rates from a certain limited section of the State of Iowa were too high,

and that they should be reduced from two to three cents per hundred pounds. The first thought is, of what practical value can this be to the grain producers of that section? Yet a moment's consideration will make it plain that it is in fact of great importance to the farmer. Without inquiring what effect a general reduction in grain rates might have upon the price of grain, it is evident that a reduction from a circumscribed area must operate to raise the price by exactly the amount of the reduction. Grain in this section would be worth from one to two cents per bushel more with the reduced rate in effect than it otherwise would. The testimony in that case showed that the average yield of corn was some thirty bushels per acre. The net money product of every acre of corn land would therefore be increased by this reduction in the rate from thirty to sixty cents, which upon a six per cent basis means a difference of from five to ten dollars per acre in the value of such land in that vicinity.

These two examples, which might be indefinitely multiplied, sufficiently illustrate the fact that a change in rates, which when applied to a single article or a single hundred pounds would be insignificant, is when applied to the entire volume of traffic which it concerns of the highest importance.

Along with this must be kept in mind another fact, which is perhaps of even more fundamental consequence in the examination of the particular question under discussion, and that is the extremely narrow margin upon which business is transacted at the present day. Some recent investigations of the Commission have presented this in a most striking light. Flour is to-day ground in this country upon a margin of two or three cents per hundred pounds, from four to six cents a barrel. Coal in large quantities is handled from the mine to the consumer at a profit of five or ten cents per ton. One-half cent a bushel is a fair profit on grain. Such is the sworn and undisputed testimony.

Let the meaning of this as applied to the freight rate be

clearly apprehended. It means that if the grain dealer can by any device secure an advantage over his competitor of one-half cent a bushel, he thereby acquires the market as against that competitor. If one miller can deliver his flour at two cents per hundred pounds cheaper than the competing miller, he grinds at a profit while his competitor does business for nothing. A concession of ten cents per ton in the freight rate on coal determines absolutely who shall and who shall not handle the product of a particular mine or a particular locality. The same is true of other commodities.

A monopoly is by its derivation and in its simplest definition the giving to one in the sale of an article an advantage which all do not possess. Let it be observed that in the production and handling of the staple commodities about the only point at which such advantage can be obtained is in the agencies of transportation. Grain is an article of prime necessity. Everybody can raise it; everybody can buy it; everybody can grind it; everybody can sell it; but it must be transported from the railway station of the producer to that of the consumer, often by one route, at most by few routes, and the expense of this transportation is usually a considerable part of its price to the consumer. So with most of the prime necessities of life. Ordinarily the means and methods of competition must be open to all alike; the avenues of transportation are the exception.

Consider next how preferences are or may be granted in transportation. The obvious and simple way is by the giving of a special rate or by the payment of a rebate. Previous to the enactment of the act to regulate commerce this was the usual method. That act made the giving of a lower rate to one shipper than was accorded others a crime. Both the carrier who grants the special rate and the shipper who receives it are liable to fine and sometimes imprisonment. This necessarily worked a change in the method of granting such preferences. First, the tendency is to seek some less obvious method than the payment of a rebate under that

name or the giving of the special rate as such. In this view many devices have been adopted. These sometimes take the form of an elevator commission; sometimes an excessive car mileage; sometimes the shipper pays the full interstate rate in consideration that he shall receive preferential rates within the state to which the Interstate Commerce Act does not apply.

Second, the effect is to reduce the number of persons with whom these transactions are had to a minimum. The fewer people who are engaged in the commission of these crimes the less the risk of detection. The traffic manager prefers to deal with one rather than many.

The central idea of the trust is the combination of large amounts of capital in enormous transactions. It has money with which to build elevators and cars. It has traffic in all directions and under all conditions. It lacks apparently the sense of right and wrong which might actuate its agents if they were acting as individuals. Many trusts go further. They demand concessions which the carrier dare not refuse for fear of the punishment which may be inflicted by the withdrawal of traffic. Not long ago a prominent railroad president wrote to a friend who was a small packer: "I hope the time will come when I can give you the same rate as your great competitor, but to-day I cannot."

Now, putting these four facts together, the great effect of the small concession, the narrow margin on which business is handled, the opportunity and inducement of the railway to prefer one shipper to another, and the manner in which that preference must be exercised, what should we naturally expect?

Should we not expect that the great shipper, and that to-day is usually the trust, would enjoy these preferences at the expense of the small shipper, and that this preference, while small, a single cent as applied to a bushel of corn, two or three times that upon a hundred pounds of merchandise, would give the market to the one receiving it? These small

sums often represent more than the entire margin upon which the business is transacted, and are in the aggregate millions of dollars annually. The unavoidable result must be to exclude the small competitor from these operations and to centre business in the hands of the large competitor.

And what is the fact? It is well known that for years past a large portion of the competitive railway traffic of this country, especially those articles which are moved in large quantities and in the handling of which a small amount in the freight rate is of great consequence, have not been moved upon the published rate. It is an equally well-known fact that during the same time the tendency has been to centre the handling of these articles in the hands of comparatively few persons. The United States exports annually enormous quantities of grain, but you can count upon your fingers the concerns which bring the bulk of it to the American seaboard. We are told that grain upon the Chicago market is handled by a half dozen concerns. It is brought from the fields west of Chicago into that city by as few. One company buys upon one line of railway and nobody else can buy there. Another upon another line. Exactly the same thing is true of beef, pork, lard, provisions and almost all those commodities which are the necessities of life.

Is there any connection between these facts? Is the discrimination in the freight rate responsible for the concentration of business in the hands of the few? There cannot be the slightest doubt of it. No person at all familiar with the situation has any other opinion. Freight rate discriminations are the most potent factor in the establishment and continuance of great combinations of capital at the present time. It may be doubted if a single one of those monopolies which have fastened themselves upon the country in recent years could have done so in the face of absolute equality in the freight rate. I do not now speak of this epidemic of combination which has swept over the business world in the last eighteen months, but of those so-called

trusts in the essentials of life. Strip these great combinations of all participation in and all dominion over the freight rate and you take away from them the most important advantage which they possess.

But how about the Standard Oil Company? The representatives of that combine stated under oath before the Industrial Commission that since the enactment of the interstate commerce law of 1887 it had received no rebates and accepted no special rates. Here then is this typical trust, this, to the popular apprehension, arch-monopoly which flourishes although it pays the open rate.

The representatives of the Standard Oil Company stated that before 1887 it received rebates in common with other shippers. The good fortune of that company in those days was that its concessions far outran those of its rivals. It is generally understood that the genesis of that institution was railway favoritism. Its competitors assert that it derives just as real assistance from the manipulation of freight rates to-day as it ever has.

Departure from the published tariff is not by any means the only method of railway preference. The most grievous discriminations are often occasioned through the maladjustment of the rates themselves. It is in this manner that the Standard Oil Company is said to obtain its advantage to-day.

For the purpose of illustration, take what is called New Haven territory; that is, the territory controlled by the New York, New Haven and Hartford Railroad Company, embracing the southern part of New England. This territory upon most commodities takes substantially the Boston rate. A comparison of these rates in 1887 with present rates reveals a peculiar fact.

In 1887 the rate from Cleveland to Boston on grain and the products of grain was twenty-two cents, on iron articles twenty-two cents, and on petroleum twenty-two cents. The rate in October, 1899, was upon grain fifteen cents, upon

iron articles twenty cents, and upon petroleum and its products twenty-four cents. While the freight rate generally has declined, while the rate on probably every other article of general consumption has declined, while the actual cost of transportation has declined, we find that the rate upon petroleum has advanced.

There is another peculiar fact. On most commodities which are shipped from the West into New Haven territory there exists a through rate. In the case of petroleum and its products there is no such arrangement. Around New Haven territory is found a Chinese wall beyond which no carload of petroleum can penetrate unless it pays the local rate over the New Haven road to its destination. Grain, iron, coal—almost everything may be shipped from Cleveland into this territory under a joint tariff which in amount is substantially the same as the Boston rate, while kerosene must pay the Boston rate to the confines of that territory and an added local rate beyond. Thus the rate on a carload of corn from Cleveland to Boston was in October fifteen cents per hundred pounds and to New Haven the same. The rate on petroleum from Cleveland to Boston was twenty-four cents and to New Haven thirty-six cents.

The significance of these two facts becomes apparent when we consider how the petroleum business is handled in this territory. The Standard Oil Company has extensive storing facilities at East Boston and refines at seaboard points, or transports at low cost the refined product to such points from whence it is taken in tank boats to East Boston and thence distributed. Independent refiners at Cleveland assert that under present freight rates they cannot compete with the Standard Oil Company in this territory; if they had the former rate of twenty-two cents they might, if even the present Boston rate were applied as a through rate into that territory they might, but under existing adjustments they are absolutely excluded.

Still another circumstance contributes to the same end.

According to the tariffs of the New Haven Company petroleum and its products are second class unless the party to whom it is consigned has a private siding or a tank opposite the rails into which he can pump that petroleum from the tank cars, in which case it is fifth class. Now, the Standard Oil Company has these tanks and private sidings over all this territory, while comparatively few are owned by independent refiners. Persons without these facilities must pay the second-class rate, while the Standard Oil Company pays the fifth-class rate. The fifth-class rate between Boston and New Haven is ten cents per hundred pounds; the second-class rate twenty cents per hundred pounds, the difference between the two probably representing several times the profit in handling one hundred pounds of kerosene oil.

This is an illustration of one method by which the adjustment of the freight rate helps the Standard Oil Company against its competitors. For another and different way, take the comparative rates on petroleum and its products from Cleveland and Chicago to New Orleans and corresponding territory. The distance is somewhat greater from Cleveland. Both these cities are competitors in the markets of that territory. The demands of their merchants and of the railways serving the two localities have established a general relation in rates by which a difference of about two cents per hundred pounds in low class freight is made in favor of Chicago. Taking twenty-five articles of the most common consumption which bear about the same rate with petroleum, we find that in almost every instance the Cleveland rate is two cents per hundred pounds higher than the Chicago rate. Linseed oil, for instance, takes a rate of twenty-eight cents from Cleveland and twenty-six cents from Chicago. When, however, you reach petroleum, you find that while the rate from Cleveland to New Orleans is thirty-one cents, the rate from Chicago is twenty-three cents, a difference four times as great as that in case of almost every other commodity taking a corresponding rate. Now, there are large inde-

pendent refiners at Cleveland. The Standard Oil Company has extensive refining works at Whiting, near Chicago, which takes the Chicago rate, and there are no independent refiners in that vicinity. The Cleveland refiners say that this is an unjust discrimination against petroleum when refined at Cleveland, the purpose and effect of which is to deliver that southern territory over to the Standard Oil monopoly.

Attention is not called to these facts for the purpose of stirring up sentiment against trusts in general or the Standard Oil Company in particular. With much of this sort which is said, I have no sympathy. The Standard Oil Company, so far as I have observed in the department with which I have to do, is no worse than other trusts, nor so bad as many. These discriminations, if they are discriminations, to which I have called particular attention, are purely business propositions. The New Haven road puts in these tariffs because more revenue is yielded by them. Doubtless the Cleveland lines are compensated in some other way for the loss of traffic from there. The rates, such as they are, are open.

What I desire is to emphasize the fact that such discriminations do exist; to fasten attention upon the importance which they play in the upbuilding and maintaining of those great aggregations of capital which are thought to threaten the welfare of the body politic; to reiterate that they absolutely shut out the small shipper. Before we adopt some of the radical measures which have been suggested in dealing with the trust, before we amend the Constitution of the United States or enact laws which may impinge upon the rights of property or trammel our commercial development, this phase of the question should be looked to.

Just what ought to be done with the monopoly may be a grave question, but that our railways, those arteries through which the commercial life blood of this great nation flows, should be open to great and small alike, admits of no

doubt, and that they are not so open, admits of as little doubt.

It may be asked why the Interstate Commerce Commission does not prohibit these rate inequalities, thereby securing equal treatment for all shippers. The answer is that it is powerless to do so for reasons which have been often stated. The cardinal purpose of the Act to regulate commerce is to secure equal treatment for great and small, but without the necessary amendments the beneficent provisions of that Act are a nullity.

CHARLES A. PROUTY.

Washington, D. C.